

VENTURE CAPITAL BANK B.S.C. (c) (“the Bank”)

**Additional Public Disclosures
31 December 2014**

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Pillar 3 Disclosures – 31 December 2014

1 Introduction

The Central Bank of Bahrain's (CBB) Basel II guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Chapter 1.3 of the CBB Rule Book, Volume II for Islamic Banks. These disclosures follow the requirements of Basel II - Pillar 3 and the Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks, and should be read in conjunction with the disclosures made in the Bank's reviewed consolidated financial statements for the half year ended 31 December 2014.

Pillar 3 disclosure requirements are designed to promote market discipline and disclosure by providing information on a firm's risk exposures and risk management processes. The Bank makes these disclosures on a comprehensive basis comprising qualitative and quantitative information annually and on a restricted basis at the half year reporting stage.

The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and follows the Basic Indicator Approach for Operational Risk to determine its capital requirements.

As at 31 December 2014, the Bank's total risk weighted assets amounted to USD 754 million; Tier 1 Capital and total regulatory capital amounted to USD 320 million and USD 323 million respectively. Accordingly, Tier 1 and Total Capital Adequacy Ratio was 42.38% and 42.78% respectively, which exceeds the minimum capital requirements of the CBB of 12%.

2 Capital Structure

2.1 Capital Base

The authorized share capital of the Bank is USD 500 million, comprising 500 million common shares of USD 1 each. The Bank's initial paid up capital was USD 66 million, which was increased to USD 150 million in 2007 through a rights issue and a private placement to new strategic investors. In addition, a further 15 million shares were authorized for allocation to the Bank's Employee Share Ownership Plan ("ESOP").

The Bank undertook a further capital increase in 2009 which increased its paid up capital to USD 250 million par value during 2010, comprising 250 million shares of USD 1 each, including 24.85 million shares allotted to the Bank's ESOP. During 2013, the Bank revised its capital structure to write off accumulated losses against share premium and available reserves and reduction of issued share capital by 20.8% plus reduction of ESOP shares allocation by approximately 56% to USD 10 million as detailed in the below table. The changes have been approved by the shareholders in an extraordinary general meeting held on 9 December 2013, and also by the regulators.

2.2 Group structure:

The Bank has the following operational subsidiaries which are fully consolidated in its consolidated financial statements.

<i>Subsidiary</i>	<i>Country</i>	<i>Capital</i>	<i>Percentage interest</i>
Gulf Projects Company W.L.L	Kingdom of Bahrain	BHD 1,000,000	100%
The Lounge Serviced Offices Co. W.L.L	Kingdom of Bahrain	BHD 20,000	100%
Lime Restaurant Management & Catering Services Co. W.L.L	Kingdom of Bahrain	BHD 20,000	100%
Mena SME Fund Manager Limited	Cayman Islands	USD 2	100%

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2 Capital Structure (continued)

2.3 Review of financial performance:

Particulars	(Half year)	June	(Half year)	June	December	December	December
	December		December				
	2014	2014	2013	2013	2012	2011	2010
Net (loss) / profit (USD million)	(4.27)	14.59	4.29	21.15	18.51	(58.67)	(47.60)
ROC (return on paid up capital)	-2.4%	8.1%	4.8%	5.5%	7.2%	-22.9%	-18.6%
Head count	46	45	46	45	42	66	76
Total investments to total assets	76%	70%	67%	75%	76%	76%	71%
Leverage (total liabilities / total equity)	17%	15%	20%	11%	6%	10%	4%
Retained earnings to paid up capital	10%	17%	14%	-22%	-23%	-30%	-7%

2.4 Capital Adequacy:

The quantitative details of the Bank's regulatory capital are depicted in the following tables:

Table 1: Regulatory Eligible Capital as at 31 December 2014

<u>Details of Eligible Capital Base</u>	USD '000	USD '000
	<u>Tier 1</u>	<u>Tier 2</u>
Issued and fully paid ordinary shares	190,000	
Less: Employee stock incentive program funded by the bank (outstanding)	(10,000)	
Disclosed reserves	3,427	
General reserves	-	
Legal / statutory reserves	3,525	
Others	(98)	
Retained profit brought forward	12,710	
Unrealized gains arising from fair valuing equities (45% only)	4,207	
Minority interest in consolidated subsidiaries	124,110	
Less:		
Current interim cumulative net losses	(4,786)	
Tier 1 Capital before PCD deductions	319,667	
Unrealized gains arising from fair valuing equities (45% only)		425
Collective impairment loss provision		2,558
Tier 2 Capital before PCD deductions		2,983
Total Available Capital		322,650
	i	ii
Net Available Capital	319,667	2,983
Total Eligible Capital (i + ii)		322,650

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2 Capital Structure (continued)

2.4 Capital Adequacy (continued)

Table 2: Details of exposures and capital requirement

Details of exposures and capital requirement		USD '000		
		<i>Gross exposures</i>	<i>Risk weighted exposures</i>	<i>Capital charge</i>
Credit risk:				
Exposures to banks		18,971	3,796	456
Exposures to corporates		35,242	35,242	4,229
Investments in listed equities in banking book		5,000	5,000	600
Investments in unlisted equities in banking book		173,940	260,910	31,309
Investments in real estate		84,200	168,401	20,208
Premises occupied by the bank		8,880	8,880	1,066
Other exposures		142,502	142,502	17,100
Total credit risk exposure under standardized approach		468,735	624,730	74,967
Market risk:				
Trading equities position		1,104	2,207	265
Foreign exchange position		72,894	72,894	8,747
Total market risk under standardized approach		73,998	75,101	9,012
Operational risk under Basic Indicator Approach (ref. below)				
			54,411	6,529
Total			754,242	90,509
Total eligible capital - (Tier 1 + Tier 2)			322,650	
Total eligible capital - Tier 1			319,667	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)			42.78%	
Tier 1 Capital Adequacy Ratio			42.38%	
Capital requirement for Operational Risk (Basic Indicator Approach)				
		USD '000		
		<i>Jun 14</i>	<i>Jun 13</i>	<i>Dec 11</i>
Gross income for past three years		30,578	27,460	(8,967)
Average of past 3 years gross income (excl. loss years)		29,019		
Capital requirement for Operational Risk at 15% of average	[A]	4,353		
Risk weighted exposure for Operational Risk	[12.5 * A]	54,411		
		USD '000		
		<i>6 months ended 31 Dec 2014</i>		
Total unrealized fair value gains / (losses):				
Unrealized fair value losses recognized in statement of income		(44)		
Unrealized fair value losses recognized in equity during the period		(61)		
Unrealized fair value losses recognized in equity at the end of the period		944		
Cumulative realised gains arising from sales in the reporting period		-		

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2 Capital Structure (continued)

2.4 Capital Adequacy (continued)

The maximum and minimum values of each category of market risk exposure during the 6 months period end 31 December 2015 are detailed in the table below:

Table 3 – Details of market risk weighted exposures

Particulars	31-Dec-14	30-Jun-14	31-Dec-13	30-Jun-13	31-Mar-13	31-Dec-12	30-Sep-12	30-Jun-12	Maximum	Minimum
Market risk exposures										
Listed equities held for trading	1,104	897	115	93	95	87	81	75	1,104	75
Foreign currency exposure*	72,894	76,013	78,887	73,119	75,103	64,274	78,966	1,331	78,966	1,331
Market risk charge										
Listed equities held for trading	177	143	18	15	15	14	13	12	177	12
Foreign currency exposure	5,832	6,081	6,311	5,850	6,008	5,142	6,317	106	6,317	106
Total market risk charge	6,008	6,225	6,329	5,864	6,023	5,156	6,330	118	6,494	118
Market risk weighted exposure										
Listed equities held for trading	2,207	1,793	230	186	190	173	163	150	2,207	150
Foreign currency exposure	72,894	76,013	78,887	73,119	75,103	64,274	78,966	1,331	78,966	1,331
Total market risk weighted exposure	75,101	77,806	79,117	73,304	75,292	64,449	79,128	1,481	77,806	1,481

* Foreign currency exposure mainly includes exposures to Turkish Lira due to consolidation of Mena Juice Limited for regulatory purposes.

Table 4 – Details of credit risk weight on Islamic financing contracts at 31 December 2014, which is representative of the average exposure during the period:

Asset Categories for Credit Risk	USD '000	
	Credit Exposure	Credit Risk Weighted Assets
Commodity murabaha to projects	7,032	10,382
Profit free funding to projects	13,884	16,032
Total Islamic Financing Contracts	20,916	26,414

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3 Risk Management

3.1 Credit and Counterparty Credit Risk Management (PD 1.3.22 + 1.3.26)

The Bank is not involved in the granting of credit facilities in the normal course of its business activities. Further, the Bank is not engaged in retail business and therefore does not use credit "scoring" models.

The credit risk exposures faced by the Bank are in respect of its own short term liquidity related to placements with other financial institutions, and in respect of investment related funding made to projects. The investment related funding exposures arise in the ordinary course of its investment banking activities and are generally transacted without contractual due dates, collateral or other credit risk mitigants. All such exposures are however reviewed periodically for recoverability and specific provisions made where necessary having regard to the nature of the exposure and the assessment of collection. Additionally, during the 6 month period ended 31 December 2014, due to continued negative market conditions, a collective impairment provision has also been recorded based on the recommendations of the external auditors. As at 31 December 2014, the total collective impairment provision stood at USD 2.558 million.

3.2 Concentration Risk

The quantitative details of the Bank's credit risk exposures are depicted in the following tables, which are representative of the position during the period and, accordingly, of the average exposures:

a. *Table 5: Distribution of the Bank's exposures by geographic sector as at 31 December 2014*

Distribution of Bank's exposures by geographic sector

USD '000

<i>Geographic sector</i>	<i>GCC countries</i>	<i>Other MENA countries</i>	<i>Europe</i>	<i>Cayman / Americas</i>	<i>Global</i>	<i>Total</i>
Assets						
Balances with banks	4,640	-	-	-	-	4,640
Placements with financial institutions	402	-	-	-	-	402
Investments	75,003	31,580	14,592	-	28,975	150,150
Investment in associates and joint ventures	26,782	1,227	-	-	-	28,009
Receivables	3,673	699	9,779	2,931	-	17,082
Funding to project companies	7,462	9,831	-	-	1,096	18,389
Property and equipment	9,056	-	-	-	-	9,056
Other assets	2,977	430	1,152	117	3,273	7,949
Total Assets	129,995	43,767	25,523	3,048	33,344	235,677
Off statement of financial position items						
Equity of investment account holders	3,680	-	-	-	-	3,680
Commitments and contingencies	29,786	12,098	-	-	-	41,884
	163,460	55,865	25,523	3,048	33,344	281,241

Note: Allocation of the Bank's exposures is based on the asset's country of risk.

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3 Risk Management (continued)

b. Table 6: Distribution of the Bank's exposures by Industry Sector as at 31 December 2014

Industry sector	USD'000							Total	
	Trading & manufacturing	Banks & financial inst.	Real estate related	Oil and Gas	Health Care	Technology	Shipping		Others
Assets									
Balances with banks	-	4,640	-	-	-	-	-	-	4,640
Placements with financial institutions	-	402	-	-	-	-	-	-	402
Investments	41,772	15,650	33,166	3,255	13,890	-	15,529	26,888	150,150
Investment in associates and joint ventures	-	1,491	24,603	-	688	-	-	1,227	28,009
Receivables	699	2,621	1,876	-	3,058	-	1,815	7,013	17,082
Funding to project companies	9,372	31	3,560	459	3,851	1,096	-	-	18,389
Property and equipment	-	-	8,266	-	-	-	-	790	9,056
Other assets	521	13	2	-	3	50	3,646	3,714	7,949
Total Assets	52,364	24,848	71,493	3,714	21,490	1,146	20,990	39,632	235,677
Off statement of financial position items									
Equity of investment account holders	-	3,099	-	-	-	-	-	581	3,680
Commitments and contingencies	12,098	10,000	19,786	-	-	-	-	-	41,884
	64,462	37,947	91,279	3,714	21,490	1,146	20,990	40,213	281,241

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3 Risk Management (continued)

c. Table 7: Exposures by maturity as at 31 December 2014

Distribution of Bank's exposures by maturity

USD '000

<i>Maturity-wise exposures</i>	No fixed maturity	Up to 3 months	3 to 6 months	6 mths to 1 year	Total up to 1 year	1 to 3 years	Over 3 years	Total
Assets								
Balances with banks	4,640	-	-	-	-	-	-	4,640
Placements with financial institutions	-	124	-	278	402	-	-	402
Investments	1,093	-	1,330	2,750	4,080	44,817	100,160	150,150
Investment in associates and joint ventures	-	-	-	-	-	-	28,009	28,009
Receivables	-	288	3,151	-	3,439	9,244	4,399	17,082
Funding to project companies	-	4,350	32	458	4,840	12,223	1,326	18,389
Property and equipment	9,056	-	-	-	-	-	-	9,056
Other assets	-	803	5,648	638	7,089	396	464	7,949
Total assets	14,789	5,565	10,161	4,124	19,850	66,680	134,358	235,677
Off statement of financial position items								
Equity of investment account holders	3,680	-	-	-	-	-	-	3,680
Commitments and contingencies	-	-	-	-	-	41,884	-	41,884
	18,469	5,565	10,161	4,124	19,850	108,564	134,358	281,241
Liabilities								
Islamic financing payable	-	20,020	-	-	20,020	-	-	20,020
Employee accruals	-	-	-	-	-	-	4,910	4,910
Other liabilities	-	5,356	1,622	972	7,950	18	1,134	9,102
Total liabilities	-	25,376	1,622	972	27,970	18	6,044	34,032

Note: There are no dues which are expected to be of longer duration than 5 years.

4 Related party transactions:

In the ordinary course of its business the Bank enters into transactions with related parties which are at an arm's length and approved by management. The following table gives an analysis of related party transactions and balances:

RELATED PARTY TRANSACTIONS

31 December 2014	<u>USD '000</u>
Assets	
Investments	39,715
Investments in associates and joint ventures	28,009
Receivables	4,175
Funding to project companies	7,766
Other assets	151
Liabilities	
Employee accruals	1,654
Income	
Income from investment banking services	200
Impairment allowances	-

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5 Impairment Provisions:

5.1 The Bank follows a prudent policy of regularly reviewing all assets for impairment. Impairment is recognized and charged to the statement of income when circumstances indicate that the recoverability of the asset is in doubt or the investment is not expected to perform as expected.

General allowance represents collective impairment against exposures which, although not specifically identified, are considered to have a greater risk of loss than when originally incepted.

Impaired Islamic financing facilities includes those where full repayment (collectability) of the principal or/and the profit is in doubt, highly questionable or considered uncollectible due to inadequate protection by the impaired paying capacity of the customer (or counterparty) or by impairment of the collateral pledged if any.

5.2 The impairment provisions recorded is summarized in the tables below :

Impairment provisions - by asset class

Particulars (USD '000)	Gross exposure	Impairment booked during the period ended 31 Dec 2014		Cumulative impairment provision as of 31 Dec 2014		Net carrying value
		Specific	Collective	Specific	Collective	
Investments	51,930	1,250	-	29,990	-	21,540
Investments in associates and joint venture	5,173	-	-	5,173	-	-
Receivable from investment banking services	22,521	-	-	10,251	-	12,270
Funding to project companies	36,509	250	550	18,962	2,558	14,989
Other assets	2,217	-	-	2,335	-	282
Total	118,350	1,500	550	66,711	2,558	49,081

Impairment provisions - by industrial sector

USD '000

Particulars (USD '000)	Gross exposure	Impairment booked during the period ended 31 Dec 2013		Cumulative impairment provision as of 31 Dec 2013		Net carrying value
		Specific	Collective	Specific	Collective	
Real estate	53,651	1,250	550	38,285	2,558	12,729
Health care	5,209	-	-	1,300	-	3,909
Technology	15,458	250	-	14,362	-	1,096
Oil and gas	18	-	-	18	-	-
Transportation	11,778	-	-	1,125	-	10,653
Others	32,236	-	-	11,621	-	20,694
Total	118,350	1,500	550	66,711	2,558	49,081

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6 Unrealized Fair Value Gains (losses):

The Bank's investments which are designated at fair value through profit or loss are re-valued at every half calendar year, and the gains / (losses) recognized in the statement of income in accordance with the relevant International Financial Reporting Standards. The valuations are performed by the Bank's investment divisions using appropriate internal valuation models with relevant market inputs and assumptions. These valuations are then independently reviewed by the Risk Management Department and the external auditors, and presented to the Board's Finance and Investment Committee for approval.

Particulars (USD '000)	6 months	6 months	18 months	12 months	12 months	12 months	12 months	12 months
	ended Dec 2014	ended Dec 2013	ended Jun 2013	ended Dec 2012	ended Dec 2011	ended Dec 2010	ended Dec 2009	ended Dec 2008
Private Equity investments - fair value (losses) / gains	-	(500)	(7,300)	(2,000)	(1,711)	-	3,830	3,300
Real Estate investments - fair value losses	-	-	-	-	(13,572)	(15,100)	(750)	6,500
Listed equity investment - fair value (losses) / gains	(44)	22	(15)	(20)	(131)	(58)	360	3,774
Total unrealized fair value (loss) / gain	(44)	(478)	(7,315)	(2,020)	(15,414)	(15,158)	3,440	13,574

7 Exposures to highly leveraged counterparties:

The Bank does not currently have any borrowings other than USD 20 million of bank financing. Accordingly, it does not have any significant liquidity risk exposure from borrowings. However, the Bank has extended certain guarantees and undertaken commitments in support of its investment projects as disclosed in Note 9 to the interim condensed consolidated financial statements.

8 Liquidity ratio:

	31-Dec-14
Cash at bank	4,640
Placements at bank	402
Marketable trading securities	1,104
Marketable AFS securities	3,899
Short term liquidity certificates	2,750
Total liquid assets	12,795
Total liabilities	34,033
Of which, due in up to 1 year	34,033
Non current, due after 1 year or more	-
Liquid assets / total liabilities	38%
Liquid assets / current liabilities (due within 1 year)	38%

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9 Profit Margin Rate Risk Management in the Banking Book:

As a financial intermediary, the Bank may encounter profit margin risks that arise from timing differences in the maturity and repricing of the Bank's assets and liabilities. While such repricing mismatches are fundamental to the business of banking, these can expose a bank's income and underlying economic value to unanticipated fluctuations as profit margins vary. This however, is not a major source of risk for the Bank. The factors that affect profit margin rates are principally market and economic factors including inflation and growth rates. Profit margin rate risk however, is not a major source of risk for the Bank due to the absence of significant rate sensitive assets and liabilities, as indicated below. Nevertheless, the Bank monitors its exposure to rate sensitive assets and liabilities proactively and in this regard has implemented a Liquidity Management Policy to manage this.

The table below depicts a profit margin sensitivity analysis in the Bank's banking book.

<i>Position at 31 Dec 2014</i> <i>Repricing period</i>	<i>USD'000</i>				<i>Impact of</i> <i>200 bp</i> <i>change</i>
	<i>Rate</i> <i>sensitive</i> <i>assets</i>	<i>Rate</i> <i>sensitive</i> <i>liabilities</i>	<i>Gap</i>	<i>Cumulative</i> <i>Gap</i>	
1 day	-	-	-	-	-
> 1 day to 3 months	4,474	20,020	(15,546)	(15,546)	(78)
> 3 months to 6 months	-	-	-	(15,546)	-
> 6 months to 12 months	3,028	-	3,028	(12,518)	61
> 1 year to 5 years	2,682	-	2,682	(9,836)	268
> 5 years	-	-	-	(9,836)	-

10 Indicators of exposures to rate of return risk

Rate of return is not a major source of risk for the Bank due to the nature of its activities as an investment bank and the lack of significant exposure to rate of return sensitive assets, liabilities or off balance sheet items.

On the assets side, the Bank is exposed to rate of return risk on its placements and other profit earning advances, which currently are of short term maturities from 1 to 3 months at profit rates of between 0.3 % to 4.5 % pa. The Bank does not currently earn any profits on funding provided to project companies. On the liabilities side, the Bank is exposed to rate of return risk on its Islamic financing payables which comprise short term bank borrowings of USD 20 million at market rates.

11 Equity of Investment Account Holders and Displaced Commercial Risk (DCR)

The Bank's exposure to Displaced Commercial Risk is limited to its Equity of Investment Account Holders which comprises the following Restricted Investment Accounts:

i. The GCC Pre IPO Fund, which was set up in 2006 to invest in the shares of unlisted GCC companies in the pre-IPO stage. The total size of the fund is relatively small with funds under investment of approximately USD 3.7 million. The Bank manages the fund as Mudarib, in exchange for a fee of 20% of returns over a 10% simple return. The investments in the GCC Pre IPO Fund are exposed to the general equity market risks prevalent in the GCC countries and in the real estate and petrochemical sectors.

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11 Equity of Investment Account Holders and Displaced Commercial Risk (DCR) (continued)

ii. The Bank's Investment Projects Mudarabah was set up in 2009 to provide liquidity financing to a selected investment project which comprised an investment of USD 12 million on which it was expected to earn a return of 7% less the Bank's share of profit as Mudarib of 7% thereof payable on maturity. During 2011, the Bank settled in full the principal and profit payable on the Investment Projects Mudarabah, which was exposed to risks prevalent in the real estate sector in Bahrain.

iii. Historical returns on Equity of Investment Account Holders:

5 years historical return data on equity of investment account holders	6 months ended Dec 2014	12 months ended Jun 2014	6 months ended Dec 2013	18 months ended Jun 2013	12 months ended Dec 2012	12 months ended Dec 2011
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
GCC Pre IPO Fund						
Net profit/(loss)	(150)	-	-	34	-	71
Total assets	3,680	3,879	3,865	3,740	3,678	3,681
Total equity	3,680	3,879	3,865	3,740	3,678	3,681
Return on assets (ROA)	-4%	0%	0%	1%	0%	2%
Return on equity (ROE)	-4%	0%	0%	1%	0%	2%
VC Bank Investment Projects Mudarabah						
Net Profit	N/A	N/A	N/A	N/A	N/A	886
Total assets	N/A	N/A	N/A	N/A	N/A	14,105
Total equity	N/A	N/A	N/A	N/A	N/A	13,165
Return on assets (ROA)	N/A	N/A	N/A	N/A	N/A	6%
Return on equity (ROE)	N/A	N/A	N/A	N/A	N/A	7%

12 Corporate Governance and transparency

12.1: Distribution of shareholders by nationality:

Country	Ownership %
United Arab Emirate	3.1%
Kuwait	22.2%
Kingdom of Saudi Arabia	54.5%
Qatar	4.5%
Oman	2.4%
Kingdom of Bahrain	13.4%
Total	100.0%

12.2: Distribution of shareholders by size of shareholding:

Ownership %	Number of shareholders
Less than 1%	149
1% - 2%	16
2% - 3%	5
3% - 4%	2
4% - 5%	0
More than 5%	3
Total	175

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12 Corporate Governance and transparency (continued)

Three of the Bank’s shareholders hold more than 5% ownership in the Bank. These are corporate shareholders noted below:

- The Commercial Real Estate Co. (K.S.C.C.) – 6.79% ownership; and
- VC Bank ESOP SPC – 6.13% ownership, but unvested.
- Securities Group (K.S.C.C.) – 5.65% ownership.

12.3: Ownership of shares by government:

The Bahrain Development Bank B.S.C. (c), a public sector organization owned by the Government of Bahrain has a 1.07% interest in the share capital of the Bank.

12.4: Ownership of shares by Board members:

Seven members of the Board have shareholdings ranging from 0.14% to 2.36% of total capital. In addition a number of Board members represent corporate shareholders with shares ranging from 0.45% to 5.65%.

The Board is responsible for the stewardship of the Bank’s business and affairs on behalf of the shareholders with a view to enhancing long-term shareholder value whilst taking into account the interests of all stakeholders and maintaining high standards of transparency and accountability. The Board comprises 12 members, all of whom are independent non-executive Directors except for the CEO.

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